

# Fiscal Note

*Fiscal Services Division*



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**SF 408** – Iowa Finance Authority Policies (LSB 2116SV)

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## **Description**

**Senate File 408** eliminates the Iowa Jobs Board and transfers the duties and responsibilities to the Iowa Finance Authority (IFA). This Bill renames the Title Guaranty Program the Iowa Title Guaranty Program. This Bill also makes statutory changes relating to the general powers and bond issuance activity of the IFA including but not limited to the following:

- Increasing the amount any one project may receive from private activity bonds from \$10.0 million to \$20.0 million.
- Allowing the IFA to contract directly with a variety of professional services.
- Designating the IFA as the governmental unit that can conduct public hearings required by section 147(f) of the federal Internal Revenue Code.
- Exempting interest earnings on all bonds issued related to the Single Family and Multifamily Programs from Iowa income tax making them “double-exempt.”
- Allowing the IFA to issue bonds for projects outside Iowa if at least 50.0% of the financing for the program is used within Iowa and the IFA has determined that the entity financing the project maintains a presence in Iowa and financing the property outside Iowa would benefit the State.

## **Background**

Income from bond interest related to the Single Family and Multifamily Programs is currently subject to Iowa income tax. These bonds are exempt from federal income tax. The table below represents bonds the IFA has issued related to these programs over the past 10 years.

### **IFA Historical Single Family and Multifamily Bond Issuance**

(Dollars in Millions)

	Fixed Rate Bonds	Variable Rate Bonds	Total
FY 2003	\$ 88.8	\$ 31.3	\$120.00
FY 2004	75.0	15.0	90.0
FY 2005	105.5	61.0	166.5
FY 2006	168.0	72.0	240.0
FY 2007	150.5	0.0	150.5
FY 2008	120.1	42.6	162.7
FY 2009	35.1	17.3	52.5
FY 2010	56.0	0.0	56.0
FY 2011	20.8	0.0	20.8
FY 2012	44.0	0.0	44.0
FY 2013	20.0	0.0	20.0

## **Assumptions**

- Excluding bonds already issued, the IFA will not issue bonds in the retail market related to the Single Family and Multifamily Programs in 2013 or 2014.
- Future bonds issued will be purchased by the different types of taxpayers in the same ratio as estimated historically.
- The interest rate on future bonds issued will equal the 20-year municipal bond interest rate of 4.0% forecasted by Moody's Analytics in February 2013.
- Bond holding periods will exceed five years, with bond interest payments made to taxpayers in each year of the analysis beginning with the year of issuance.
- Tax year liability on interest income is met 30.0% in the same fiscal year as the tax year and 70.0% in the following year, based on the timing of estimate payments.
- Of the current bonds and notes issued by the IFA related to the Single Family and Multifamily Programs a total of 9.0% are owned by individuals or entities subject to Iowa income tax.
- Unobligated funds appropriated from the Revenue Bonds Capitals (RBC) Fund in FY 2010 will revert to the RBC Fund at the end of FY 2013.
- This Bill takes effect July 1, 2013.

## **Fiscal Impacts**

### **Fiscal impact to other funds**

On July 1, 2013, \$1.1 million will revert to the RBC Fund.

### **Fiscal impact to the General Fund**

The Iowa income tax exemption for the Single Family and Multifamily Programs will decrease potential future General Fund revenue. Using the assumption that the IFA will not issue Single Family and Multifamily Program bonds in 2013 or 2014, there will be no impact to State General Fund revenue in FY 2014 or FY 2015. Once bonds are issued with tax exempt status, for every \$10.0 million of Single Family and Multifamily Program bonds issued by the IFA in the future, there is a potential Iowa income tax revenue loss of \$2,000 to \$22,000 depending on the tax status of the bondholders.

This Bill does not explicitly state whether the Iowa income tax exemption for the Single Family and Multifamily Programs is retroactive to current issues. If applied retroactively, the potential impact on net State General Fund revenue by fiscal years is presented in the following table.

<b>Fiscal Impact by Fiscal Year</b>	
	State General Fund
FY 2014	\$ -34,000
FY 2015	-27,000
FY 2016	-22,000
FY 2017	-18,000
FY 2018	-14,000

Adding another set of double-exempt bonds may adversely affect entities within the state that already have authority to issue double-exempt bonds. The increased supply could lead to the need to increase the interest rate return for investors, driving up the cost of issuing bonds.

**Sources**

Iowa Finance Authority  
Department of Revenue  
LSA Analysis & Calculations

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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